

REMARKS/ARGUMENTS

Favorable consideration of this application is respectfully requested.

Claims 1-20 are pending.

Claims 21-63 are canceled by way of the present preliminary amendment, without prejudice or disclaimer.

Applicant previously filed a Request for Reconsideration on November 5, 2004, but the first of two advisory actions was not mailed until May 10, 2005. Applicant understands that, during the time period from November 2004 to May 2005, the USPTO examiner responsible for this application has changed. Accordingly, the undersigned respectfully requests a personal interview with the new USPTO examiner prior to the continued examination of this application on the merits.

In the final Office Action of June 14, 2004, claims 1-63 were rejected under 35 U.S.C. § 102(b) as unpatentable over U.S. Patent No. 6,317,727 to May ("May"). Applicant respectfully traverses this rejection on the grounds that independent Claims 1, 18, and 19 each define an invention, which when considered as a whole is neither anticipated by nor obvious over the May reference, and that the May reference is not available timewise as prior art against the claims of the present invention.

**I.     The Claims of the Present Invention Are Patentably Distinguishable Over the May Reference**

An important feature of the present invention is that a standardized contract can be traded through an exchange that guarantees payment to the buyer of any amount owed to the buyer from the seller and that guarantees payment to the seller of any amount owed to the seller from the buyer. This means the inventive contract can be bought and sold in the same manner that one might purchase IBM, Microsoft, or Yahoo stock, for example. Since the

present invention also provides a financial instrument that has a price sensitivity similar to an interest rate swap, the present invention is able to provide an exchange-traded alternative to a traditional interest rate swap. (Specification at ¶¶ 85-86.)

The present invention is particularly beneficial to small entities, including private investors, who may not have the resources to negotiate a traditional interest rate swap, which is unique and proprietary to the two parties to the swap. (*Id.* at ¶¶ 12-15, 85-86.)

Traditionally, the transaction costs of an interest rate swap are so great that the interest rate swap market is dominated by the largest global banks and is not accessible to small players. (*Id.*) With the present invention, any person who is able to open an account with a participating exchange can trade the inventive financial instrument, which mimics the price sensitivity of a conventional interest rate swap. (*Id.*) Moreover, since the inventive financial instrument is exchange-based, trade in the financial instrument is “transparent.” (*Id.*) That is, the parties are blind to one another, and there is no need to negotiate with, determine the creditworthiness of, or otherwise be concerned with the identity of a counter party. (*Id.*)

As defined by Claim 1, the present invention includes a method that includes the step of “trading a standardized contract obligating a buyer and a seller to settle the contract based on a price of the contract at a first effective date, through an exchange that guarantees payment to the buyer of any amount owed to the buyer from the seller as a result of the contract and that guarantees payment to the seller of any amount owed to the seller from the buyer as a result of a contract” and “determining, using a computer, the price of the contract based on at least one notional cash flow discounted by at least one point on an interest rate swap curve obtained from a swap rate source.” The invention of Claim 1 advantageously eliminates the need for two counterparties to negotiate a separate contract each time they desire to engage in an interest rate swap. In fact, a party need not communicate with a

counterparty at all. With the present invention, an entity that wishes to take on risk similar to an interest rate swap merely has to purchase the inventive contract through an exchange rather than find another counterparty willing to accept the desired terms of an interest rate swap contract. This is the opposite of the May reference.

The May reference is directed to a system for monitoring credit risks in an electronic trading system. Among the various contracts that a user can enter into are interest rate swaps and interest rate swap options. (Col. 18, lines 14-27.) However, what the May reference discloses is nothing more than a way of advertising conventional swaps of the type described in the background section of the present invention. In other words, each of the parties wishing to enter into a swap must find another contracting party in order to contract for a swap. This is apparent because the May reference specifically states that the parties to the swaps and other contracts are “counterparties.” (*See, e.g.*, col. 9, lines 8-11.) The contracts are also referred to as “bilateral contracts.” (*See, e.g.*, col. 10, line 30.)

With May, users must select the different parameters that they wish to negotiate in for a particular derivative instrument. (Col. 21, lines 55-58.) The only thing about the May system that is standardized is that the parameters must be selected from a limited set, such as those provided in column 18, so that the different users can interpret each other’s various offers. This is analogous to the abbreviations used in newspaper classified ads.

As such, the invention of the May reference simply provides an electronic forum that allows users to see other user’s offers for various types of contracts and, more importantly, to provide what May calls “credit risks” for the various parties. “The credit preference feature of the present invention provides for the bilateral credit status between two entities to be captured, structured and used anonymously for the trading a wide range of financial contracts.” (May, col. 23, lines 1-4.)

An important feature of May, however, that is entirely different from the present invention, is that the parties to a swap *form a bilateral contract with one another* rather than an exchange. That is why the trading system of May provides credit risks – because the parties are directly responsible to each other for their performance on the contracts.

According to May, “[n]o funds are transferred between the parties at the time the contract is created. Rather, the contract places an obligation on both over the term of the contract.” (Col. 24, lines 57-60.) Thus, the users, not the trading system, are responsible for determining terms of the interest rate swap. (*See, e.g.*, col. 33, lines 43-58.) That is why the system of May has to allow the parties to negotiate the non-commercial terms of a transaction after a contract has been formed between the counterparties. (Col. 3, lines 3-5.)

Thus, it can be appreciated that the May reference is merely a conventional interest rate swap contract system which provides the additional advantage of matching users with the credit preferences of the traders in the system. (Col. 39, lines 16-18.) Clearly, May does not teach or suggest trading a standardized contract obligating a buyer and a seller to settle the contract based on a price of the contract at a first effective date, through an exchange that guarantees payment to the buyer of any amount owed to the buyer from the seller as a result of the contract and that guarantees payment to the seller of any amount owed to the seller from the buyer as a result of the contract, as defined by Claim 1. Accordingly, May is not believed to anticipate or make obvious the invention of Claim 1.

Therefore, Applicant submits that Claim 1 and all claims dependent therefrom patentably distinguish over the May reference. Since, independent Claims 18 and 19 include features that patentably distinguish over the May reference for at least the same reasons as Claim 1, Applicant also submits that those independent claims and all claims dependent therefrom patentably distinguish over the May reference.

## **II. Applicant's Date of Invention Antedates the May Reference**

Applicant notes that the filing date of the May reference is October 12, 1998.

Assuming that the subject matter identified in the outstanding Office Action in the May reference is also found in the provisional application to which the May reference claims priority, then the May reference would have an effective filing date of October 14, 1997 with respect to that subject matter. Since the outstanding Office Action fails to indicate whether the priority document contains the subject matter alleged to anticipate the present invention, the May patent should be treated as having an effective filing date of October 12, 1998, in which case, May would not be available as prior art against the present application.

However, even if May is accorded an earlier effective filing date, Applicant's date of invention predates the provisional application to which the May reference claims priority.

Applicant submits that the present invention was conceived before the October 14, 1997 filing date of the provisional application to which the May reference claims priority. Specifically, Applicant's provisional application Serial No. 60/074,588, filed February 13, 1998, contains descriptions of Applicant's invention that predate the October 14, 1997 priority date of the May reference. In support of the present inventors' earlier conception date, Applicant has previously submitted declarations from all of the inventors in accordance with 37 C.F.R. § 1.131 ("Declarations").

Among the descriptions of the invention in Applicant's provisional application (Serial No. 60/074,588) is an Information Booklet that was completed by June 1997. (Declarations ¶¶ 4, 5) The document is found at pages 11-71 of the Applicant's provisional application.<sup>1</sup>

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<sup>1</sup> Copies of the documents referenced in the inventor declarations were not attached to the declarations because the original documents are already part of the official record, constituting Applicant's provisional application Serial No. 60/074,588, filed February 13, 1998. If the Office nonetheless takes the position that the provisional application should have been photocopied and attached to the declarations, Applicant will submit new declarations with copies of the provisional application attached thereto. However, Applicant submits that, in the

Additionally, Applicant's provisional application includes a Bloomberg article entitled, "A Package Repo Wrapped in Benchmark Financing" at pages 154-156 of Applicant's provisional application. Additional articles describing Applicant's invention are found at pages 157-160 of Applicant's provisional application. (Declarations ¶ 8.)

Accordingly, the invention of the independent claims was conceived before the October 14, 1997 priority date of the May reference. (Declarations ¶ 3.) Thus, the May reference is not prior art to the present application.

Further, Applicant's provisional application was filed February 13, 1998. Prior to that, Applicant had disclosed its invention publicly, which resulted in the articles at pages 154-160 of Applicant's divisional application, including screen shots of a prototype in a Bloomberg article dated February 1997. Applicant worked diligently to reduce the invention to practice, as evidenced by the Information Booklets dated June 1997 and November 1997, respectively, in the provisional application. (Declarations ¶¶ 5, 7.) The Information Booklets show that Applicant was working with a clearinghouse (Delta Clearing Corp.) to implement the invention. Indeed, constructive reduction to practice was achieved only months after the November 1997 Information Booklet when Applicant filed its first provisional application on February 13, 1998.

In light of the foregoing, Applicant respectfully requests that the outstanding rejection over the May reference be withdrawn.

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Application No. 09/682,189  
Reply to Office Action of June 14, 2004  
and Advisory Actions of May 10 and 20, 2005

As no further issues are believed to be outstanding in the present application.

Therefore, applicant respectfully requests that the present application be allowed and be passed to issue.

Customer Number

**22850**

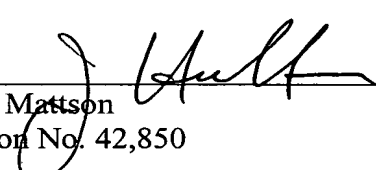
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